

RatingsDirect®

Summary:

Lincoln, Illinois; General Obligation

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Credit Profile

US\$5.29 mil GO rfdg bnds (alternate rev source) ser 2014 due 12/01/2023

Long Term Rating

A+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Lincoln, Ill.'s series 2014 general obligation (GO) alternate revenue source refunding bonds under its local GO criteria released Sept. 12, 2013. The outlook is stable.

The rating reflects our assessment of the city's:

- Weak economy;
- Very strong budgetary flexibility in terms of available general fund reserves;
- Strong budgetary performance;
- Very strong liquidity in terms of total governmental cash available to cover debt service and total expenditures;
- Adequate management conditions, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong debt and contingent liabilities position; and
- Strong institutional framework.

The bonds are GOs of the city and are secured by water and sewer system net revenues and by unlimited ad valorem property taxes to the extent that pledged revenues are insufficient. The city has indicated that it plans to abate the annual debt service levy for the series 2014 bonds after fully funding debt service on the bonds. The city will use bond proceeds to refinance outstanding Illinois Environmental Protection Agency revenue notes for interest cost savings.

Weak economy

In our view, Lincoln's local economy is weak, with per capita market value at roughly \$30,600 and projected per capita effective buying income at roughly 86% of the national average. The city is 30 miles northeast of Springfield, the state capital. Its population is 14,259. Leading employers near the city include two correctional centers (750 employed), Eaton Corp. (400), and Abraham Lincoln Memorial Hospital (300). In 2013, Logan County's unemployment rate was 8.8%, according to the Bureau of Labor Statistics, below the state's 9.2% rate. Officials indicate the local employment base remains stable, which suggests to us that the county unemployment rate will not rise in the near term.

Very strong budgetary flexibility

In our view, the city's budgetary flexibility is very strong, with \$3.9 million of available reserves equal to 64.7% of general fund expenditures and expenditures for fiscal 2013 (year ended April 30). Available reserves consist of the general fund unassigned cash balance as well as \$194,993 of restricted fund balance, which the city says is available, if needed. We believe reserves are a credit strength, as the city's available fund balance was above 30% for the most

recent audit. The city plans to use a portion of its reserves for capital projects, but we expect the remaining reserves will remain above 30% for the current and following years.

Strong budgetary performance

In our view, Lincoln's budgetary performance is strong overall, with a surplus of 15.2% for the general fund and a surplus of 7.3% for the total governmental funds in fiscal 2013. The city is a nonhome-rule community subject to a property tax levy cap equal to the lesser of 5% or the rate of inflation, except with regard to new construction. Intergovernmental revenues—including sales and income tax distributions from the state—provided 80% of total government funds revenue in fiscal 2013, while property taxes only made up 11%. Based on current- and subsequent-year projections, we believe that the issuers' finances will deteriorate, in the sense that the city expects an increase in reserves in 2014, but plans to use roughly \$2 million in total of its reserves in 2015 to cash fund capital projects.

Very strong liquidity

In our opinion, very strong liquidity supports Lincoln's finances, with total government available cash at 57% of total government fund expenditures and at 11x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs, if necessary.

Adequate management conditions

In our view, Lincoln's management conditions are adequate with "standard" financial practices under our FMA methodology, indicating the government, in our opinion, maintains adequate policies in some, but not all, key areas. Strengths of the assessment, in our opinion, include management's strong revenue and expenditure assumptions in its budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and strong investment management policies. The city's goal is to maintain reserves at a level equivalent to six months of expenditures, although it is not currently meeting that goal.

Strong debt and contingent liabilities

In our opinion, Lincoln's debt and contingent liabilities profile is strong. Total governmental fund debt service is 5.1% of total governmental funds expenditures and net direct debt is 36% of total governmental funds revenue. Amortization is rapid, as approximately 81% of the debt is due to be retired in 10 years. In our view, this is a credit strength. We view the net debt to market value low and a positive credit factor at 2%. The city currently has no other debt plans.

However, we view the issuers' pension/other postemployment benefit obligations as large and a negative credit factor. The city contributed to three pension plans in 2013: the Illinois Municipal Retirement Fund (IMRF), the police pension fund, and firefighters pension fund. It contributed 90% of its annual required contribution to the IMRF in 2013. The city's IMRF funded level was 56% as of Dec. 31, 2012, its most recent actuarial valuation date, and its unfunded actuarial accrued liability was \$1.3 million. Altogether, the city contributed nearly \$1.1 million toward its pension plans or 17% of total governmental expenditures. It also pays 50% of retiree health care premiums, but does not disclose the annual cost of this benefit in its audit. Eligible employees can stay on the city's health plan until 65, after which the city pays 50% of medical supplement costs. The city's audit does not disclose information about the funding levels of its police and fire pension plans or its retiree health care benefit plan.

Strong institutional framework

We consider the Institutional Framework score for Illinois nonhome-rule communities subject to the Property Tax Extension Limitation Law (PTELL) strong.

Outlook

The stable outlook reflects our expectation that we will not change the GO bond rating within a two-year horizon because we believe that management will take the necessary steps to maintain very strong budgetary flexibility despite the planned use of reserves, and very strong liquidity. We may lower the rating if Lincoln can't maintain balanced operations and if budgetary performance and flexibility weaken substantially as a result. A higher rating is unlikely given the city's economic indicators.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Illinois Local Governments

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